

WARBURG PICTURES INVESTMENT SNAGS

Sees Danger in \$4,000,000,000 of Undigested Liberty Loan Bonds.

WOULD BLIGHT MARKET
Favors Huge Trusts to Help

Digest Liberties and Take Up Foreign Securities.

Paul M. Warburg, in an address yesterday at the monthly meeting of the Bond Club, pointed out the danger that undigested Liberty bonds, which amounted to approximately \$4,000,000,000 at the beginning of the Fifth Loan campaign

and must have been increased substantially since then, would throw a chronic blight on the investment market. He declared that the present extreme form of taxation is harming the country; that

badly mangled railroad credit must be firmly reestablished and that huge investment trusts must be formed, first to aid the digestion of Liberty bonds, then to stimulate a save and invest campaign and absorb investments in foreign

Mr. Warburg said that these problems were only some of those which confronted the investment bankers, but he expressed confidence that the problem would be solved to the financial advantage of America. He said:

"As a consequence of the war the creation of wealth has proceeded on entirely new lines, and to-day we find over 20,000,000 bondholders where in the past we had only 200,000. Where heretofore investment banking addressed

itself primarily to the comparatively few possessed of large incomes, taxation to-day strikes so heavily at the revenues and inheritances of the so-called well to do classes and interferes so drastically with accumulation of investment funds on their part that successful distribution

of large volumes of new securities can only be carried on by following wealth into the millions of small rivulets and channels into which it now flows and where it is less subjected to the exactions of the tax collector.

extreme form of taxation cannot long be maintained without doing great harm to the further development of the country and we may well expect that some modification will be made in the near future. But I believe it is safe to assume that in a large measure the new

conditions have come to stay and that we may not hope for a healthy and permanent adjustment between capital and labor unless the working classes are so situated that they can save and put aside in investments a fairly substantial portion of their earnings. In this

ability of theirs to save and invest lies one of the most important means of bringing back to a more normal condition our present badly distended financial structure.

"It is not possible in these short remarks to dwell upon the question of inflation. But we all realize the ominous part played in this connection by the approximately \$4,000,000,000 of undigested Government securities, estimated

to have been carried by banks and bank loans at the time of the beginning of the Victory Loan campaign. We may assume that this item has since been substantially increased. I believe that it is one of the gravest and at the same time most puzzling problems of the in-

vestment banker to find ways and means of furthering the absorption by the savings of the people of these floating Government loans. Unless that task is accomplished, it is to be feared that these undigested bonds will throw a chronic blight on the investment market. I am

confident that money rates and the purchasing power of the dollar will not find their healthy and fairly permanent level until this process of absorption is completed.

"Next in importance are the problems of railroad and foreign financing. Both

strange to say, are closely interrelated. For as long as our railroad securities sell on an abnormally high interest basis, it is evident that we cannot, on a comprehensive scale, offer good foreign securities at prices that would make them attractive to our own investors.

without, at the same time, appearing prohibitive to the foreign borrower, exorbitant compared to the prices which other competing countries might be able to offer. It is most important therefore that our railroad problem be solved by a way that will firmly reestablish our

"I think that I am voicing the view of most of those who have followed the trend of the discussion of remedial legislation when I express to you my own firm belief that a just solution is being sought."

Public Decrees R. R. Competition.

"We may take it as admitted, I believe, that the majority of the American people do not favor regional railroad monopolies, but desire a system of strong and competing railroads. This leads to the inevitable conclusion that the Government must leave an opportunity for ex-

sufficient to preserve and encourage private enterprise and rivalry. On the other hand, it is conceded that the interest of the public requires a restriction of railroad profits in case they exceed certain limits.

for the finding of a sound and logical solution even though we must realize that it is one thing to announce the broad principles and another to master the intricate questions of technique and detail. These, however, will appear much less puzzling when the complex

problem is properly dissected into the three phases, in which it must be treated. They are the final stage of possibly between twenty and thirty consolidated Federal railroad systems operating under a rate making rule based on the established aggregate value of the property.

erties grouped in traffic sections, the intermediate stage covering the time necessary to complete consolidations and valuations and the first stage, including the immediate steps necessary to disentangle the railroads from Government operation and put them back

"The country begins to modernize that where the price of goods increased by about 200 per cent. since 1898, and cost of transportation in the same period is estimated to have risen only by about 40 per cent. for passenger fares and

20 per cent. for freight rates. It begins to comprehend that one year's increase in wages, estimated at \$125,000,000, equals about three times the total amount of the annual railroad dividends paid by all railroads combined. When it is fully appreciated that

question of a successful or unsuccessful legislation may depend upon the passage or denial of an additional return of less than \$100,000,000, the people will have no doubt as to their wishes in the matter. That addition, if it results in establishing a healthy and efficient

basis for private railroad operation.
the direct and indirect results of it
prove one of the greatest successes
made by the country."
